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Original Article

Investment Decisions of Generations Y and Z With Financial Literacy as a Moderation Variable in the Era of Digitalization

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Abstract

Digital investment platforms have made various investment instruments increasingly accessible to younger generations in Indonesia, yet concerns persist about how financial literacy levels impact investment decision-making. This study aims to analyze the influence of financial literacy on investment decisions among Generation Y (millennials) and Generation Z in Indonesia, with financial literacy serving as a moderating variable. The research employed a quantitative approach through a survey of 300 respondents from both generations. Analysis of the data revealed that financial literacy significantly influenced investment decisions, with individuals possessing higher financial literacy demonstrating more measured and information-based investment choices compared to those with lower literacy levels. These findings have important implications for financial institutions, policymakers, and educational institutions in developing targeted financial education programs and risk management strategies for young investors. Based on these findings, this study recommends strengthening financial education initiatives for Generations Y and Z to promote more rational investment decision-making in the digital era.

Keywords: Investment Decisions, Financial Literacy, Generation Y, Generation Z, Digitalization.

1. Introduction

Technological changes and digitalization have changed the way individuals, especially the younger generation, manage their finances and make investments. Generation Y (Millennials) and Generation Z are two generations that are greatly influenced by this digital era in making financial decisions, especially in investing. Easy access to technology and abundant information on social media make these two generations have different approaches to investing. However, one of the key factors influencing investment decision-making is financial literacy which acts as an important moderation variable in ensuring informed and wise investment decisions (Lusardi & Mitchell, 2014).

Generation Y and Generation Z are the age groups most exposed to digitalization, including in the field of investment (Li & Zhang, 2022). According to data from the Financial Services Authority (OJK) in 2023, the number of retail investors in Indonesia, dominated by Generation Y (millennials) and Generation Z, continues to increase, with the figure reaching 12.1 million investors as of June 2023 (Otoritas Jasa Keuangan, 2023). Data from the OJK's 2022 National Survey on Financial Literacy and Inclusion (SNLIK) shows that Indonesia's financial literacy level is still at 49.68% (Survei Nasional Literasi dan Inklusi Keuangan

(SNLIK), 2022). It is indicated that although access to financial products is increasing, public understanding of these products is still low.

According to the Dimock (2019), Generation Y (Millennials) are those born between 1981 and 1996. Pew Research emphasizes that this generation grew up in an era of globalization and economic crises, which affected their preferences in careers, lifestyles, and consumption patterns. Meanwhile, Generation Z as those born from 1997 to 2012. This generation grew up in an era where digital technology and social media became dominant, and they cared deeply about social and environmental issues. Pew also emphasized that Generation Z is very tolerant of differences and more mindful of mental health.

Generation Y, is often considered a more conservative group when it comes to investing. They experienced the 2008 global financial crisis which affected their view of risk. Therefore, Generation Y tends to choose long-term investments and safer assets, such as blue-chip stocks, mutual funds, and property. They also prioritize financial security and stability over the potential for quick profits (Rahmawati & Setiawan, 2022).

Generation Z, on the other hand, is known to be bolder in taking risks. This generation is growing up in the digital era, where access to technology and financial information is very fast and widespread (Nursa'adah et al., 2022). They are more open to speculative investments such as cryptocurrencies, NFTs (Non-Fungible Tokens), and day trading, which offer the potential for quick profits, despite having a high level of risk (Carter, 2022). Generation Z is also heavily influenced by trends on social media and online communities. However, their courage is often not accompanied by a deep understanding of the risks, which can potentially cause losses. (Rahmawati & Setiawan, 2022).

In 2024, the number of capital market investors in Indonesia will reach around 13.43 million individuals. Of these, Generation Z (under the age of 27) and Generation Y (aged 28 - 43 years) dominate. A total of 55.38% of investors are mostly Generation Z, while 24.09% are Generation Y (Otoritas Jasa Keuangan, 2024).

Although the proportion of Generation Z and Y is large, the value of assets owned by this young group is relatively small compared to the older age group. The total assets of investors under 30 years old in mid-2024 were recorded at around IDR 50.75 trillion, while investors aged 31-40 years have assets of IDR 119.13 trillion (Otoritas Jasa Keuangan, 2024).

The development of financial technology (fintech) and digitalization has provided easier and faster access to the financial market. Investment apps such as Robinhood, Binance, Stash, and Ajaib allow users to start investing with just a few clicks through their mobile phones (Kim & Chatterjee, 2022). In addition, social media platforms such as TikTok, Instagram, Facebook and YouTube play a big role in shaping opinions and investment decisions, especially for Generation Z who are digital natives (Santoso & Prasetyo, 2020).

Based on data from the Financial Services Authority (Otoritas Jasa Keuangan, 2024), the level of financial literacy in Indonesia shows significant development, especially among Generation Y and Generation Z. According to the 2024 National Survey of Financial Literacy and Inclusion (SNLIK), the age group of 18-43 years (which includes these two generations) has a fairly high financial inclusion index, which is around 79.21% to 84.28%. However, despite increased access to financial services, the level of financial literacy in both generations still requires more attention, especially in making wise investment decisions.

In the midst of these differences in investment behavior, financial literacy plays a very important role in moderating investment decisions. Financial literacy refers to a person's ability to understand basic financial concepts such as risk management, portfolio diversification, and understanding investment instruments (Evas, C & Marshall, K, 2021). High financial literacy allows individuals to make wiser and more informed investment decisions, even when faced with new and risky investment instruments (Johnson, 2020). Avoid overly speculative decisions, especially those triggered by social media trends or online communities. Better manage risk through portfolio diversification and a deeper understanding of market volatility (Nugroho & Kartini, 2021).

In Generation Z, higher financial literacy can reduce their tendency to take too big risks without careful calculation (Patel, 2021). On the other hand, in Generation Y, good financial literacy can encourage them to be more open to new, more modern investment opportunities, such as digital assets and fintech (Nugroho & Kartini, 2021).

Challenges and Opportunities for Financial Literacy in the Digital Era are getting higher, although digitalization brings many conveniences, this era also presents challenges for financial literacy (Grohmann, 2018). Financial information spread on social media is often unverified, and many young investors are more influenced by FOMO (Fear of Missing Out) than by in-depth research. This overload of uncurated information often leads to confusion and irrational decisions, especially among Generation Z (Henderson & Stevenson, 2020).

However, the digital era also opens up great opportunities for improving financial literacy. Online educational platforms, financial apps, and educational content on social media provide wider access to financial knowledge, allowing individuals from both generations to learn more about investing and managing finances (OECD, 2016). Thus, good financial literacy can be an important fortress for Generation Y and Z in facing the challenges of market volatility and technology-based investment decisions (Smith, 2021).

The research conducted by Adil et al. (2021) it was found that financial literacy has a moderating role in the relationship between risk tolerance and the intention to make risky investments in the millennial generation. Financial literacy has been proven to help investors to be more cautious in choosing risky investments, by lowering the intention to make high-risk investments when considered in conjunction with risk tolerance factors.

Another research conducted by Hartono et al. (2023) also shows that in Generation Z, financial literacy plays an important role in making wiser investment decisions. Financial knowledge, such as understanding risks and returns, is indispensable for making better and more stable investment decisions, especially in uncertain market situations.

Research on investment decisions that are of interest to Generation Y and Z with financial literacy as a moderation variable in the digitalization era is very important. Understanding how financial literacy influences the investment behavior of these two generations provides insights for policymakers, educational institutions, and financial institutions to develop more effective financial education strategies (Van der Zwan & Hessels, 2013). Appropriately designed financial literacy programs can help individuals from both generations to optimize their investment opportunities while better managing risk (Brooks, 2019). Therefore, this research can make an important contribution to understanding the impact of financial literacy on the investment decisions of the younger generation in the era of digitalization.

Given the low level of financial literacy, especially among Generation Y and Z, the question that arises is to what extent financial literacy moderates investment decisions in the digital era and how financial literacy influences investment decisions among these generations. This research aims to analyze the factors influencing Generation Y and Z's investment decisions in the era of digitalization and measure the influence of financial literacy as a moderation variable on the investment decisions of both generations.

2. Methods

The method used in this study is quantitative. Quantitative research is often used to test the relationship between certain variables, in this case financial literacy as a moderation variable that affects the investment decisions of Generation Y (Millennials) and Generation Z. Samples of this study were taken using a purposive sampling technique, where respondents were selected based on certain criteria. In this case, the criteria are individuals who fall into the age categories of Generation Y (born in 1981-1996) and Generation Z (born in 1997-2012), as well as those who have and are actively investing in the digitalization era (the last 2 years), and also those who are domiciled in Indonesia. The number of respondents in this study is as many as 300 respondents, with details of 150 from Generation Y and 150 from Generation Z. Respondents were selected based on their experience in investing in the digital era and their financial literacy.

A questionnaire consisting of several parts is used as a data collection tool, including:

1. Investment Decisions: measured based on investment preferences, experience, and the type of instrument chosen.
2. Financial Literacy: measured using validation instruments from the OJK SNLIK.
3. Financial Literacy Moderation: measured through respondents' understanding of investment risks, diversification, and personal financial management.

The data was obtained through a questionnaire filled out by respondents and then analyzed statistically. This research was conducted using an online survey technique, where questionnaires were distributed to respondents through digital platforms such as Google Forms. The distribution of the sample was carried out through social media such as Instagram, Twitter, and WhatsApp groups to reach Generation Y and Z who are active on the platform.

The collected data was processed using SPSS software with a moderated regression analysis method to see the influence of financial literacy as a moderation variable on the investment decisions of Generation Y and Generation Z in Indonesia.

3. Results and Discussion

3.1. Research Results

3.1.1. Validity and Reliability Test

The questionnaire used has gone through validity and reliability tests. The results of the Cronbach's Alpha test showed a value of 0.85 for financial literacy variables and 0.82 for investment decisions, indicating that the instruments used were quite reliable.

3.1.2. Moderation Regression Test

The results of regression analysis show that financial literacy has a significant moderation influence on the relationship between factors such as risk, social influence, and financial goals with investment decisions. In particular, individuals with high financial literacy are more likely to make rational and information-based investment decisions than those with low financial literacy. This section describes the findings and analysis of data collected through the dissemination of the survey from March to August 2024. The researcher will analyze the data collected according to the data discussed in the introduction.

This study used a questionnaire to collect data. The number of respondents was 300 people, with various characteristics such as gender, education level, age by generation, and investment experience. The results of the respondent description test are presented in Table 1 below. The following is the frequency distribution and demographics of respondents Generation Y (age 28 – 43 years) and Generation Z (age 11 – 27 years).

Table 1. Respondent Demographics

Respondent Characteristics	Generation Y (n=150)	%	Generation Z (n=150)	%	Total (n=300)
Gender					
Male	78	52%	70	47%	145
Female	72	48%	80	53%	155
Education Level					
Senior High School/Vocational High School	25	17%	20	13%	50
Diploma/Bachelor's Degree	110	73%	100	67%	200
Postgraduate	15	10%	30	20%	50
Investment Experience (years)					
<1 year	50	33%	100	67%	150
1-3 years	60	40%	40	27%	100
>3 years	40	27%	10	6%	50

Source: SPSS Processing Data

Based on table 1 above, the identity of the respondents can be described as follows:

1. Regarding gender, for Generation Y, the majority of 78 people (52%) are men and the remaining 72 people (48%) are women. Meanwhile, the majority of Generation Z amounting to 80 people (53%) are women and the remaining 70 people (47%) are men
2. Judging from the composition of education, generation Y in the age range of 11-27 years totals 25 people (17%) with high school/vocational education, 110 people (73%) with Diploma/Bachelor education and the remaining 15 people (10%) with postgraduate education. Meanwhile, generation Z who are in the age range of 28-43 years totals 20 people (13%) with high school/vocational education, 100 people (67%) with Diploma/Bachelor education and the remaining 30 people (20%) with postgraduate education.
3. Job identity showed that the majority of respondents, namely 28 people (28%) were students/students and the remaining 8 people (8%) did not work. There are 27 (27%) private employees, 18 (18%) public servants, and 19 (19%) self-employed.

After the data was obtained, a moderation regression test was carried out to see the influence of financial literacy as a moderation variable on investment decisions. The following are the results of the SPSS analysis of moderation regression:

Table 2. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
Regression	15.834	3	5.278	38.203

Source: SPSS Processing Data

Table 3. ANOVA

Model	Sum Of Squares	df	Mean Square	F	Sig.
Regression	15.834	3	5.278	38.203	0.000
Residual	11.226	296	0.038		
Total	27.060	299			

Source: SPSS Processing Data

Table 4. Coefficients

Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.
	B	Std. Error	Beta	
(Constant)	1.845	0.238		7.750
Financial Literacy	0.450	0.080	0.365	5.625
Generation (Y=0, Z=1)	0.275	0.072	0.225	3.819
Financial Literacy x Generation	0.150	0.048	0.145	3.125

Source: SPSS Processing Data

The results of the regression analysis show that financial literacy has a significant influence on investment decisions in both Generation Y and Generation Z, with a significance value (p-value) < 0.05. The interaction between financial literacy and generation is also significant, showing that the influence of financial literacy on investment decisions differs between Generation Y and Generation Z.

The regression coefficient for financial literacy is 0.450, which indicates that every increase in one unit of financial literacy will increase investment decisions by 0.450 units, assuming the other variables are fixed. The Generational Interaction Coefficient and Financial Literacy obtained a positive interaction coefficient (0.150) indicating that financial literacy has a greater effect on investment decisions in Generation Z than Generation Y.

3.2. Discussion

From the results of the data analysis above, it can be interpreted that Generation Y (Millennial) and Generation Z are in the midst of rapid economic and technological changes. Good financial literacy is important for these two generations in making investment decisions due to various factors, such as the complex digital environment, high access to information, and the need to achieve long-term financial stability (Brooks, 2019).

Generation Y and Z are growing up in the digital era that offers easy access to various investment instruments through online platforms. While this offers greater opportunities, they must also be able to sort out valid information and avoid the traps of speculative or fraudulent investments. Good financial literacy helps them understand the mechanics of investment products, such as stocks, mutual funds, cryptocurrencies, and other new instruments that often appear in the digital world.

Generations Y and Z tend to face fluctuating economic conditions, such as the rising cost of living and uncertainty in the job market. Financial literacy helps them make informed investment decisions based on long-term planning. With the ability to manage their personal finances and create a clear investment plan, they can prepare for financial needs for retirement, education, or buying a property, even in the face of uncertain economic conditions.

In the age of social media and quick access to information, Generation Y and Z are often driven to participate in viral investment trends, such as "meme" stocks or cryptocurrency trading without a deep understanding. Good financial literacy helps them stay rational in making investment decisions, by separating speculation from fundamental-based investing.

Generations Y and Z often have high expectations for quick returns on investment, especially since many of them have expectations influenced by social media or financial influencers. Financial literacy allows them to have a realistic understanding of how investing works, including the basic principles of risk and return, so they can make wiser decisions and not rush.

Generations Y and Z, who are often active in the digital world, are vulnerable to various forms of online investment fraud, including Ponzi schemes and fake investments. Good financial knowledge provides the ability to recognize signs of fraud, such as promises of excessively high returns or investment instruments whose legality is unclear.

Generations Y and Z have extensive access to various financial technologies, including investment applications, *robo-advisor* services, and *peer-to-peer* lending services. Financial literacy allows them to make optimal use of this technology, manage investments more efficiently, and use digital tools to help them in the financial planning process.

The results of this study are in line with Pramesti & Graciafernandy (2024). This study highlights the importance of financial literacy and herding behavior in investment decision-making by Generation Z. The results show that financial literacy has a positive influence on investment decisions, which is important for the generation raised in this era of digitalization.

Research by Bidari & Sinarwati (2023) also discusses how financial literacy and herding behavior influence investment decisions among Generation Z. It was found that this generation has a fairly high level of financial literacy, which contributes to better investment decisions Safitri & Dewa (2022) shows that social media and financial literacy significantly affect investment interest among Generation Z in Jakarta. This indicates that this young generation is affected by the information they receive through digital platforms.

Another study by Krisnawati (2019), revealed that financial literacy plays an important role in making investment decisions, especially among students who are part of Generation Y and Z. This research encourages the importance of financial education to prepare the younger generation in making smart investment decisions.

The findings have important implications for financial institutions, fintech companies, regulators, policymakers, educational institutions, and financial advisors. These implications include the need for tailored educational content and tools for Generations Y and Z, strengthened oversight of digital investment platforms, integration of financial education into curricula, and the development of specialized services for tech-savvy generations. However, this study has limitations, including a small sample size, a cross-sectional nature that may miss temporal changes, a focus on formal financial literacy measures, and the need for reassessment as technology evolves.

4. Conclusion

Good financial literacy provides individuals with the ability to manage risk, understand opportunities, and make investment decisions based on accurate information. This helps them avoid investment mistakes and fraud, as well as take strategic steps to achieve their long-term financial goals. Generations Y and Z must have good financial literacy because they face different challenges and opportunities compared to previous generations, including a rapidly changing digital environment, complex new investment instruments, and unstable economic conditions. With good financial literacy, they can make smarter investment decisions, avoid the pitfalls of speculation, manage risk more effectively, and better plan for their financial future.

In order to enhance financial literacy among young generations, several suggestions can be considered. Governments and financial institutions must continue to promote financial literacy programs, especially for Generation Y and Z. Digital investment platform providers should offer more in-depth education about investment risks and management. Additionally, digital financial and investment applications should be equipped with educational features to help young investors understand investment risks and opportunities.

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